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northwest economic
indicators

NORTHWESTERN NATIONAL BANK OF MINNEAPOLIS AN AFFILIATE OF NORTHWEST BANCORPORATION

Regional Outlook

March 24, 1980

Highlights

- During recessionary periods, the Upper Midwest has experienced smaller declines in both nonfarm income and employment than the nation. Although recession-induced declines in economic activity are larger in Minnesota than for the rest of the Upper Midwest, Minnesota is also less affected than the national average.
- This reduced sensitivity to national downturns can be traced to the economic structure of our region. The service sector is the greatest source of stability in our region. This sector accounts for a larger share of our nonfarm employment than nationally. And it continues to grow, although at a reduced rate, during recessions.
- The manufacturing sector also contributes to the stability of our region. This is traceable to the presence of fewer recession-sensitive manufacturing industries such as autos and steel. Even so, our region still experiences significant reductions in manufacturing employment during national economic downturns.
- The construction industry typically has been one of the hardest hit sectors in our region. Much of this volatility is due to housing slumps, which have been at least as severe here as nationally.
- Layoffs in the mining industry tend to be relatively larger in Minnesota than nationally. This reflects the highly cyclical nature of auto and steel production, which in turn adversely affects our taconite industry.
- Rapidly rising production costs and only modestly rising farm commodity prices will cause a sharp reduction in net farm income this year. Thus, agriculture will provide less of a cushion for our region if a national recession develops this year. This is disturbing because the farm sector typically has been a source of regional economic strength.

Dr. Sung Won Son
Senior Vice President and
Chief Economist

Greater Regional Stability During Recessions

The economy has stubbornly refused to slip into a recession. In fact, until the recent sharp jump in interest rates, it appeared that a recession might again be avoided this year. Declining consumer purchasing power would instead reflect itself in a flat or very sluggishly growing economy. While this possibility still exists, it does not bring forth an image of a strong and healthy economy.

Policymakers, however, appear determined to push the economy into a recession. If a national recession does develop, how will our region fare? Which sectors will be most seriously impacted? To help answer these questions, the economic performance of our region during the last five recessions was analyzed. Results are reported for both Minnesota and the regional economy encompassing Minnesota, North Dakota, South Dakota, Montana, Iowa and Nebraska. This region is referred to as the Upper Midwest.

Previous Recessions

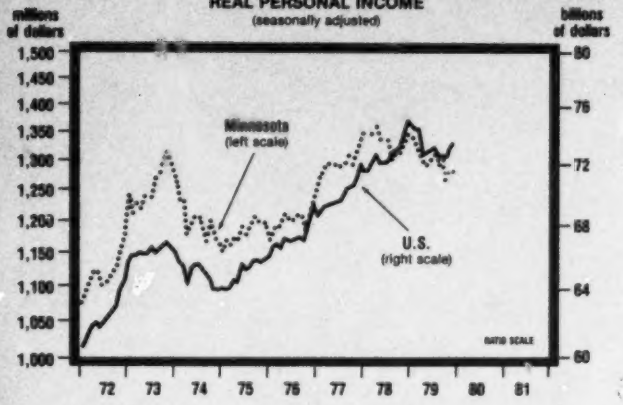
Nonfarm Income: Farm income usually changes independently of the national business cycle. And its volatility often tends to obscure underlying cyclical developments. Thus, nonfarm income is one of the best available measures of overall economic activity in our region.

Table 1 shows that real (i.e., inflation adjusted) nonfarm income in the Upper Midwest region is considerably less sensitive to the business cycle than the rest of the nation. For example, during the last recession, real nonfarm income declined by 1.5 percent in our region compared with a 5 percent decline nationally.

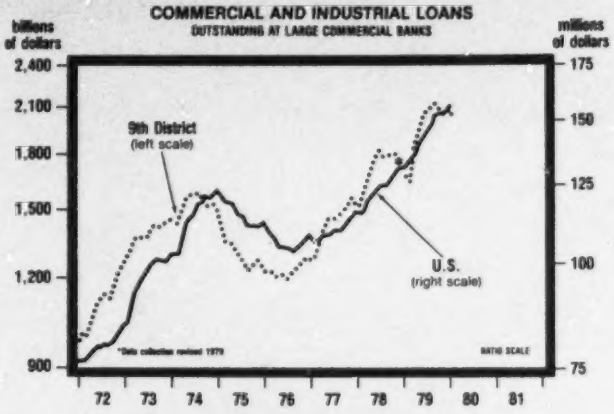
Although less pronounced, a similar pattern emerges for Minnesota. While the 1969-70 recession suggests that Minnesota is more impacted by recessions than the national average, unusual events overstated the impact of that business cycle on Minnesota nonfarm income. During that period, Minnesota was plagued by labor disputes in construction, airline transportation and education; cutbacks in military and aerospace contracts and the permanent closing of a meat

REGIONAL ECONOMIC CONDITIONS

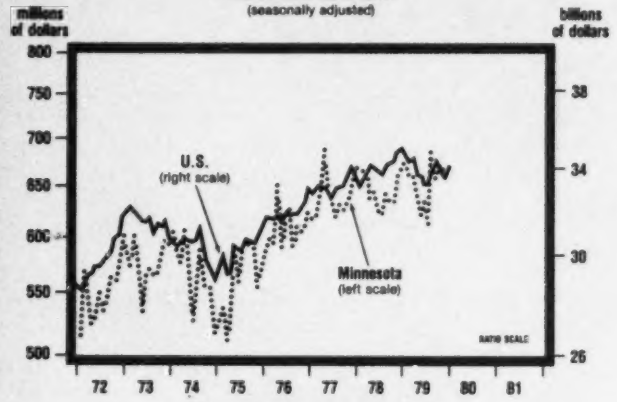
REAL PERSONAL INCOME
(seasonally adjusted)



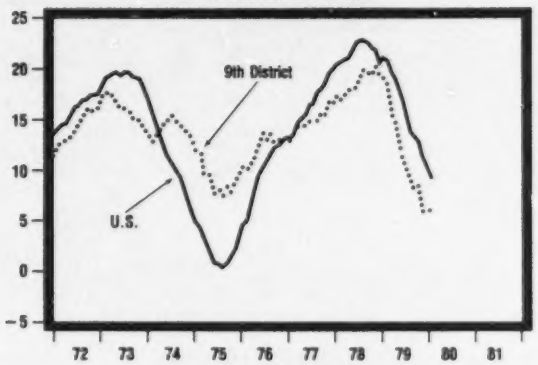
COMMERCIAL AND INDUSTRIAL LOANS
OUTSTANDING AT LARGE COMMERCIAL BANKS



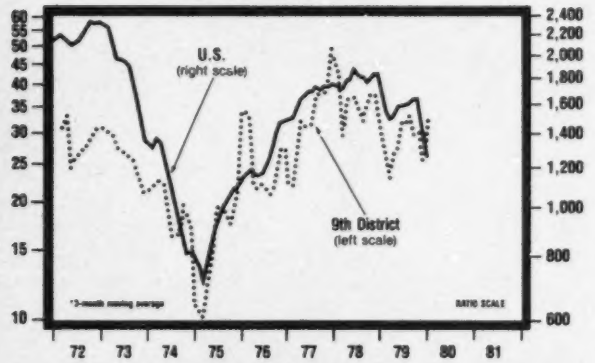
REAL RETAIL SALES
(seasonally adjusted)



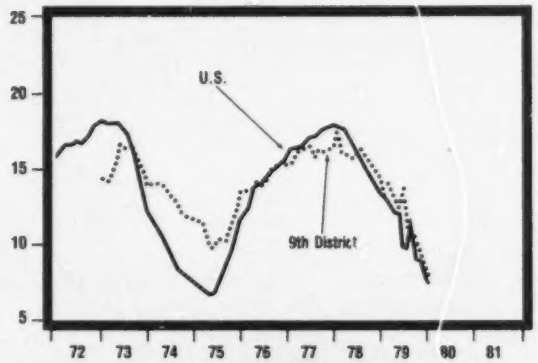
CONSUMER INSTALLMENT CREDIT
OUTSTANDING AT SAVINGS AND LOAN ASSOCIATIONS
percent change from a year ago



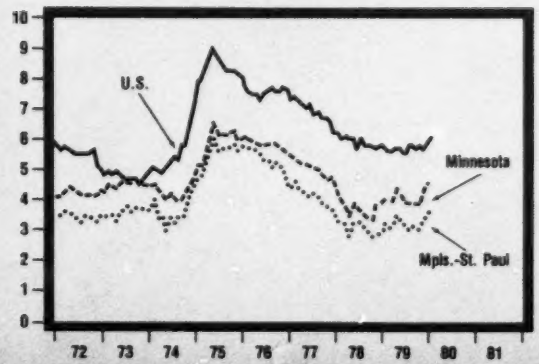
HOUSING UNITS AUTHORIZED
HOUSING UNITS AUTHORIZED BY BUILDING PERMITS
(seasonally adjusted annual rates*)
thousands of units



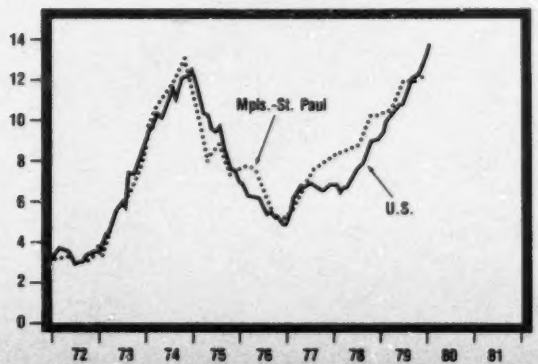
MORTGAGE LOANS
OUTSTANDING AT SAVINGS AND LOAN ASSOCIATIONS
percent change from a year ago



UNEMPLOYMENT RATES
(seasonally adjusted)
percent of labor force



CONSUMER PRICE INDEX
ALL ITEMS, ALL URBAN CONSUMERS
percent change from a year ago



packing plant. Thus, the 1969-70 experience should be viewed as an exception rather than a general rule.

Nonfarm employment: Other indicators of economic activity also reveal the greater resilience of the Minnesota and regional economy during national recessions. As shown in Table 2, recession-induced declines in total nonfarm employment typically have been between one and two percentage points less in the Upper Midwest than the nation. As a result, unemployment rates rise significantly less in our region than nationally.

Relative to the national average, Minnesota's nonfarm employment is also more stable during recessionary periods. As discussed earlier, the 1969-70 exception to this conclusion can be explained by a series of special factors which overstate the impact of that recession on Minnesota. Note, however, that the recession-induced declines in employment are larger in Minnesota than for the Upper Midwest region.

Table 3 reveals that the major source of employment stability in our region comes from the service sector which accounts for over 40 percent of our nonfarm employment. Among others, this segment includes finance, insurance, medical and government services. During the past five recessions, employment in these service industries continued to grow, although at a slower pace. Furthermore, the growth rates for Minnesota and the Upper Midwest region exceeded the national average.

Another service sector, wholesale and retail trade, also adds to employment stability. During recessions, employment in wholesale and retail trade has tended to fall only modestly throughout the nation, with a small edge given to our region. This relatively stable sector accounts for around one-quarter of our nonfarm employment, a greater share than the national average.

The manufacturing sector is the second largest contributor to the relative stability of our region. During the past five recessions, manufacturing employment declined by an average of 7.2 percent in the Upper Midwest, 8.8 percent in Minnesota and 9.3 percent for the nation. These differences are even more pronounced if the 1969-70 recession is excluded.

The relatively smaller decline in our region is traceable to the presence of fewer recession-sensitive manufacturing

Table 1
Real Nonfarm Income During Recessions[a/]

Recession	Peak to Trough Decline in Nonfarm Income		
	United States	Minnesota	Upper Midwest
	(Percentage change)		
1960-61	-1.1	-0.4	+1.1[b/]
1969-70	-1.2	-2.1	-0.9
1973-75	-5.0	-3.4	-1.5

[a/] Nonfarm income includes wages, salaries and business income paid to individuals. Dividends, interest, rents and transfer payments are excluded. Data are adjusted for inflation.
[b/] Average income growth during the recession.

Table 2
Total Nonfarm Employment During Recessions

Recession	Peak to Trough Decline in Employment		
	United States	Minnesota	Upper Midwest
	(Percentage Change)		
1953-54	-3.5	-2.6	-1.6
1957-58	-4.3	-2.5	-2.1
1960-61	-2.2	-1.6	-1.0
1969-70	-1.5	-2.6	-0.9
1973-75	-2.9	-2.4	-2.0

Table 3
Impact of Recessions on Nonfarm Employment

Industry	Peak to Trough Percent Change in Employment		
	United States	Minnesota	Upper Midwest
	Average for Recent Recessions[a/]		
Mining	-10.2	-22.8	-15.7
Construction	-10.8	-9.7	-8.1
Manufacturing	-9.5	-8.0	-6.8
Transportation & Utilities	-6.2	-8.7	-5.6
Wholesale & Retail Trade	-1.7	-1.5	-1.2
Finance, Services, Government[b/]	+2.6	+3.2	+2.9
Total Nonfarm	-3.2	-2.3	-1.7
	1973-74 Recession		
Mining	-4.6	-11.2	-7.2
Construction	-19.2	-15.1	-12.9
Manufacturing	-11.5	-11.2	-10.6
Transportation & Utilities	-5.2	-7.4	-5.2
Wholesale & Retail Trade	-1.5	-1.3	-0.9
Finance, Services, Government[b/]	+3.1	+3.4	+3.6
Total Nonfarm	-2.9	-2.4	-2.0

[a/] Recession Periods are: 1953-54; 1957-58; 1960-61;1973-75. The 1969-70 recession was excluded due to a series of unusual events which tend to distort the Minnesota results.
[b/] Average Employment Growth during the recessionary periods.

industries such as automobiles and steel. Even so, in absolute terms, our region still experiences significant reductions in manufacturing employment during national economic downturns.

In previous recessions, the construction industry has been one of the most volatile sectors in the region with peak to trough declines in employment averaging about 10 percent in Minnesota and 8 percent in the Upper Midwest. This compares with an average decline of 11 percent for the United States. Much of this volatility, of course, is due to the cyclical nature of residential construction.

Employment in mining, our region's smallest sector, is also quite volatile. In fact, layoffs in the mining sector are relatively larger in our region than nationally. This largely reflects the cyclical nature of auto and steel production, which in turn causes sharp reductions in taconite production and employment in northeastern Minnesota. Even though still quite volatile, Minnesota mining employment has declined less sharply in recent recessions than during the fifties and early sixties.

Employment in transportation, communications and public utilities is also significantly affected by national recessions, with employment declining relatively more in Minnesota than nationally. This may, in part, reflect reduced production and shipments of iron ore.

Residential construction: Homebuilding traditionally has been hard hit by recessions and related credit crunches. As shown in Table 4, the housing slump typically is at least as severe here as nationally. This may, in part, simply reflect the greater volatility of home-building within any one small segment of the country. In addition, the declines in our region typically have been from unusually strong peaks. The large declines in our region may also reflect the possible adverse effects that previous usury laws had on the availability of mortgage funds in this region during periods of high interest rates.

Table 4
Homebuilding Activity During Recessions

Recession	Peak to Trough Decline[a/]		
	United States	Minnesota	Upper Midwest
	(Percentage Change)		
1960-61	-25.1	-35.1	-23.6
1966-67[b/]	-43.8	-61.5	-57.1
1969-70	-24.6	-48.9	-35.8
1973-75	-69.1	-68.4	-57.3

[a/] Percentage change in homebuilding as measured by residential building permits authorized.
[b/] Slump in homebuilding induced by credit tightening. This period was not classified as an economy-wide recession.

1980 Regional Outlook

If a national recession materializes this year, history suggests that the economic downturn in Minnesota and the Upper Midwest should be moderated by the economic structure of our region. In addition, the magnitude of the regional downturn is expected to be milder than the 1973-75 recession, simply because the national downturn is likely to be less severe.

Even so, we will experience our share of economic turbulence in 1980. Retail sales are expected to slacken from their 1979 levels. Housing starts will experience a steep slide and unemployment rates could show definite upward movement by the end of the year.

Homebuilding probably will be one of the most seriously affected sectors in our region. In Minnesota, residential building permits declined by more than 20 percent last year. The combination of high mortgage rates and reduced availability of funds will cause homebuilding to slide further this year, with the peak to trough decline possibly approaching 50 percent.

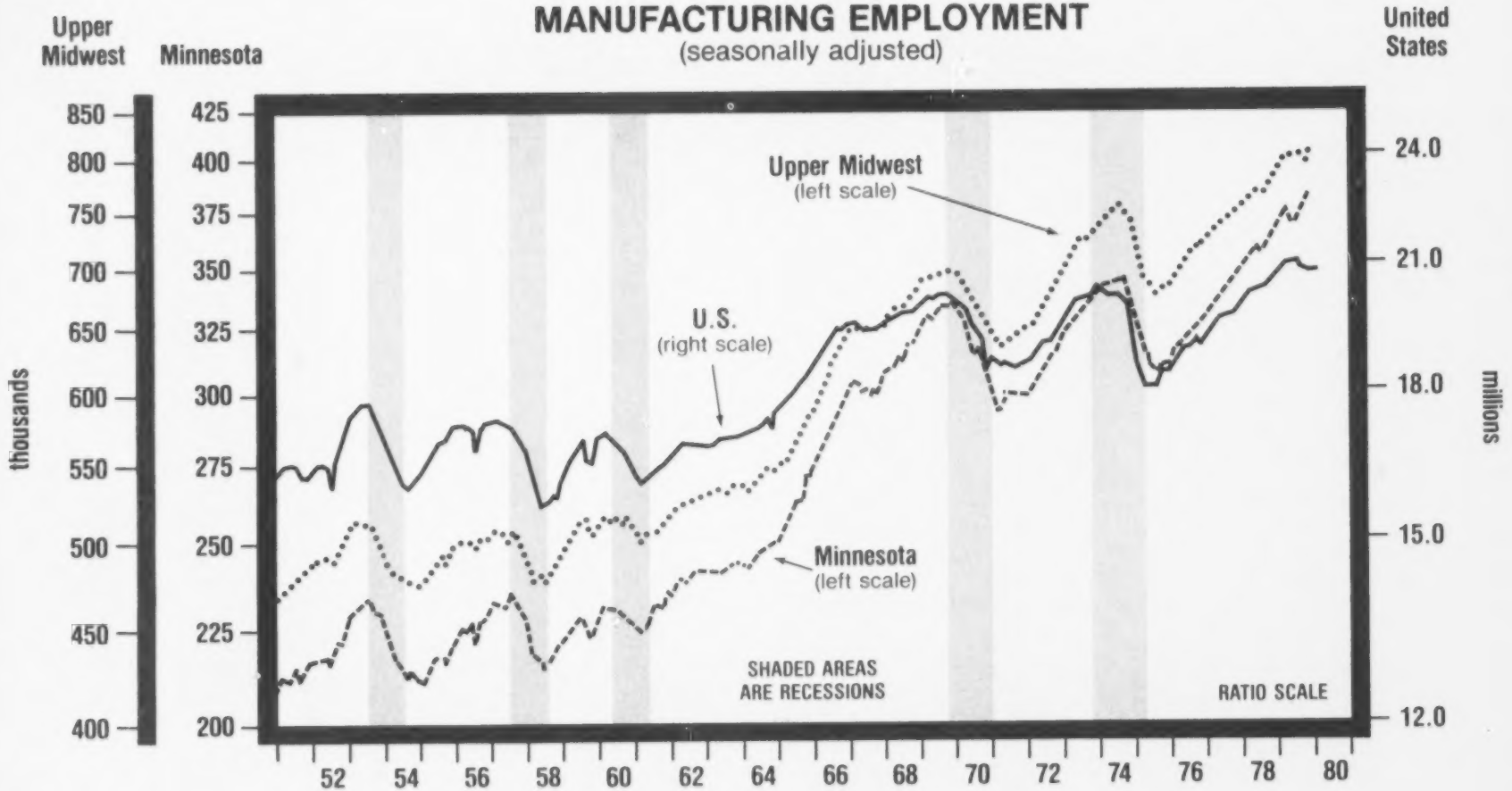
Accordingly, construction employment will also be depressed in our region. However, the current boom in commercial construction in the Twin Cities area will help buffer the decline so that, overall, construction employment may fall significantly less than in previous recessions.

The development of oil and gas resources in North Dakota and Montana should help maintain employment and growth in that portion of the Upper Midwest. On the other hand, sizable declines are expected in taconite production and employment in northeastern Minnesota due to depressed demand for autos and steel. Keep in mind, however, that the steel workers will begin negotiating a new contract next summer. The threat of a strike could significantly alter production and employment estimates for 1980.

Manufacturing employment, especially in the durable consumer goods area and in the lumber and wood products industry, may also decline this year. Nevertheless, the overall decline in manufacturing employment will be cushioned by pent-up demand for electronic components, auto retooling and expansion of aerospace production.

Unfortunately, the agricultural sector will be less of a cushion during this downturn. This year, farm production costs are expected to rise more rapidly than farm revenue. As a result, net farm income could fall by over 20 percent after adjustment for inflation.

This is disturbing because the farm economy has been counted on as a source of regional economic strength. In the past, national economic downturns were barely noticeable in many rural communities. This year, the slowdown in farm spending, not the national recession, will impact a number of rural communities. As a result, although Minnesota and the Upper Midwest will continue to be less impacted by a cyclical downturn than many other parts of the country, this regional difference might be less pronounced if a recession occurs this year.


MANUFACTURING EMPLOYMENT
(seasonally adjusted)
Upper Midwest
Minnesota
United States
thousands
millions
850
800
750
700
650
600
550
500
450
400
425
400
375
350
325
300
275
250
225
200
24.0
21.0
18.0
15.0
12.0
Upper Midwest
(left scale)
U.S.
(right scale)
Minnesota
(left scale)
SHADED AREAS
ARE RECESSIONS
RATIO SCALE
52
54
56
58
60
62
64
66
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70
72
74
76
78
80